

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

EAST TAWAS HOUSING COMMISSION

Financial Statements

December 31, 2006

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Opinion	i
Management Discussion and Analysis	ii
 <u>FINANCIAL STATEMENTS</u>	
Combined Statement of Net Assets	2
Combined Statement of Revenue, Expenses and Changes in Net Assets	3
Statement of Cash Flows	4
Notes to Financial Statements	5
 <u>SUPPLEMENTAL DATA</u>	
Combining Balance Sheet	11
Combining Statement of Income and Expenses	12
Status of Prior Audit Findings	13
Schedule of Expenditures of Federal Awards	14
Report on Compliance Applicable with Requirements to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	15
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	17
Schedule of Findings and Questioned Cost	18

John C. DiPiero, P.C.

Certified Public Accountant

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Board of Commissioners
East Tawas Housing Commission
304 West Bay Street
East Tawas, Michigan 48730

Independent Auditor's Report

I have audited the financial statements of the East Tawas Housing Commission Business Type Activities as of and for the year ended December 31, 2006. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the East Tawas Housing Commission as of December 31, 2006, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated August 3, 2007, on my consideration of the East Tawas Housing Commission's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Required Supplemental Information

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Combining Financial Statements

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the financial statements taken as whole.

Certified Public Accountant

August 3, 2007

This discussion and analysis of the East Tawas Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the financial statements.

Entity-Wide Statements

The combined financial statements show, in one place, all the Commission's operations. Our statements are prepared on the accrual basis of accounting, which is similar to that used by most businesses. Under this method, all revenues and expenses connected with the fiscal year are taken into account even if the cash involved has not actually been received or paid. The Financial Data Schedule included within the audit report contains all the programs of the Commission.

Fund Statements

The Financial Data Schedule reports the Commission's operations in more detail. The Commission reports all its activities using Proprietary Fund types. These funds are used to show activities that operate more like commercial enterprises. The Financial Data Schedule is organized by the government Catalogue of Financial Domestic Assistance (CFDA) numbers.

Entity-Wide Financial Highlights

The Commission was awarded and received the following Federal Assistance:

	<u>Year 2006</u>	<u>Year 2005</u>
Operating Subsidies	\$ 48,195	\$ 44,570
Capital Projects Funds	81,608	56,959
Section 8 New Construction	150,840	156,016

Comparison of the current year to the past and discussion of significant changes as follows:

	<u>Year 2006</u>	<u>Year 2005</u>	<u>Net Change</u>
Cash & cash equivalents	\$ 158,107	\$ 40,182	117,925
Accounts Receivable	1,127	25,638	(24,511)
Investments			
(Restricted/Unrestricted)	119,723	38,504	81,219
Prepaid Expenses	23,216	30,536	(7,320)

	<u>Year 2006</u>	<u>Year 2005</u>	<u>Net Change</u>
Fixed Assets, prior to			
Depreciation	\$ 3,180,649	\$ 3,179,794	\$ 855
Total Liabilities	484,823	528,584	(43,761)
Net Assets	1,236,169	1,126,545	109,624
	<u>Year 2006</u>	<u>Year 2005</u>	<u>Net Change</u>
Revenues:			
Tenant Revenues	\$ 267,166	\$ 253,064	\$ 14,102
HUD Grants	280,643	257,545	23,098
Expenses:			
Administrative	89,568	84,232	5,336
Tenant Services	275	1,260	(985)
Utilities	105,097	80,347	24,750
Maintenance & Operations	98,541	115,138	(16,597)
General Expenses	41,977	43,593	(1,616)
Depreciation Expense	102,304	101,465	(839)

The Commission's cash position increased during the year, accounts receivable-decreased, our investments increased, prepaid expenses decreased; our fixed assets before depreciation were increased, total liabilities decreased, and Net Assets increased. HUD grants remained constant with the exception of our Capital fund, and total expenses remained approximately the same (total in 2006, \$ 335,458; 2005, \$ 324,570)

Our cash position increased by \$ 117,925, and our investments increased by \$ 81,219; both as a result of our net profit before depreciation of \$ 211,928. Accounts receivable decreased due to no account receivable from HUD this year; prior year \$ 25,174, total decrease \$ 24,511. Prepaid expenses decrease \$ 7,320 due in large part by the amortization of prepaid bond refinancing in the amount of \$ 7,100. Net assets increased by the amount of the net profit, \$ 109,624.

Significant changes in revenues and expenses are as follows: Tenant revenues increased 5% which is in the range of expected increases due to increases in social security benefits, interest income and increases in medical deductions. HUD grants are a result of requisitioning eligible funds. HUD grants received are a result of calculations under the Performance Funding System, and Capital grants authorized and obligated during the year. Utility cost increased; we had a significant rate increase in both electric and gas in the past year; Maintenance and Operations decrease because the Maintenance benefits decreased \$ 19,257- our maintenance supervisor opted out of health benefits as his family has better coverage by another family member.

The Commission provided the following housing for low to moderately low income families:

	<u>Year 2006</u>	<u>Year 2005</u>
Low Rent Public Housing	41	41
Section 8 New Construction	44	44

General Fund Budgetary Highlights

The Commission approved an annual budget on January 16, 2006 for December 31, 2006, and had no occasion to amend the budget during the year. The following represents the significant differences between the budget and actual results:

	<u>Budget</u>	<u>Actual</u>	<u>Difference</u>
Tenant Rents	\$ 249,000	\$ 266,626	\$ 17,626
Discretionary CFP funds	40,000	81,608	41,608
Maintenance Benefits	21,650	7,364	(14,286)
Net Profit before Depreciation	140,895	211,928	71,033

Tenant rents increased as a result of increases in social security benefits and increases in other assets like interest income. We remain fully occupied; therefore, the increase is in an average increase in tenant income. Our original budget anticipated using \$ 40,000 in our Capital Program Fund (CFP) for operations, we subsequently transferred all the CFP (\$ 81,608) to operations. Maintenance benefits decreased due to our maintenance supervisor opting out of health benefits. The rents, CFP funds, and maintenance benefits equal the difference between the budget and actual figures.

Entity Wide Capital Assets

The fixed assets increased \$ 855 prior to depreciation. The Commission opted to put all the CFP money into operations; we intend to also put the 2007 CFP into operations. We are considering however, a financing package which would include borrowing money against the Section 8 New Construction building and undergoing a major building renovation. The loan would involve tax credits and leveraging the equity of the building against the cost to completely redo the interior including the plumbing.

Commission's Position

The Commission plans to use the 2006 and 2006 capital funds for kitchen cabinet replacements in the Low Rent Program dwelling units. Improvements to the Section 8 New Construction units will be funded out of replacement funds within that program.

We anticipate current funding levels for operations and capital improvements will remain consistent with past years; therefore, the Commission expects to continue to provide safe, sanitary and decent housing for the low and moderately low income elderly families.

Questions or comments concerning this Management Discussion and Analysis may be directed to:

Janell Reed, Executive Director
304 W. Bay St.
East Tawas, Michigan 48730

EAST TAWAS HOUSING COMMISSION
Statement of Net Assets
December 31, 2006

ASSETS

C-3087

CURRENT ASSETS

Cash	\$	158,107	
Accounts Receivable		330	
Accounts Receivable- Other		797	
Investments		119,723	
Prepaid Expenses		<u>23,216</u>	
Total Current Assets	\$		302,173

NON CURRENT ASSETS

Land	\$	205,892	
Buildings		2,888,554	
Furniture, Equipment- Dwellings		34,536	
Furniture, Equipment- Administrative		51,667	
Accumulated Depreciation		<u>(1,761,830)</u>	
Total Non Current Assets			<u>1,418,819</u>

TOTAL ASSETS \$ 1,720,992

EAST TAWAS HOUSING COMMISSION
Statements of Net Assets
December 31, 2006

LIABILITIES

C-3087

CURRENT LIABILITIES

Accounts Payable	\$	9,496	
Accrued Wages & Payroll Taxes		2,159	
Accrued Interest Payable		2,426	
Accrued Compensated Absences		5,766	
Accounts Payable-Other Governments		16,551	
Tenants Security Deposit		20,196	
Deferred Revenue		505	
Current Portion-Long Term Debt		<u>115,000</u>	
<u>Total Current Liabilities</u>	\$		172,099

NON CURRENT LIABILITIES

Long Term Debt, net of current portion	\$	299,740	
Accrued Compensation- non current		<u>12,984</u>	
<u>Total Non Current Liabilities</u>			<u>312,724</u>
<u>Total Liabilities</u>	\$		484,823

NET ASSETS

Investment in Fixed Assets, net of related Debt	\$	1,004,079	
Unrestricted Net Assets		<u>232,090</u>	
<u>Total Net Assets</u>			<u>1,236,169</u>

<u>TOTAL LIABILITIES & NET ASSETS</u>	\$	<u>1,720,992</u>
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The Accompanying Notes are an Integral part of the Financial Statements

EAST TAWAS HOUSING COMMISSION
Statement of Revenue, Expenses, and Changes in Net Assets
For the year ended December 31, 2006

REVENUE

Tenant Rental Revenue	\$ 266,626	
Tenant Revenue-Other	540	
HUD Grants	280,643	
Interest Income	5,656	
Other Income	<u>12,145</u>	
<u>Total Revenue</u>		\$ 565,610

EXPENSES

Administrative	\$ 89,568	
Tenant Services	275	
Utility Expenses	105,097	
Ordinary Maintenance	98,541	
General Expenses	<u>41,977</u>	
<u>Total Expenses</u>		<u>335,458</u>

Excess (Deficiency) of Revenues over Expenses \$ 230,152

OTHER SOURCES & (USES)

Interest Expense	\$ (18,224)	
Depreciation Expenses	<u>(102,304)</u>	
<u>Total Other Sources (Uses)</u>		(120,528)

CAPITAL CONTRIBUTIONS \$ 0

Change in Net Assets \$ 109,624

Total Net Assets- Beginning 1,126,545

Total Net Assets- Ending \$ 1,236,169

The Accompanying Notes are an Integral part of the Financial Statements

EAST TAWAS HOUSING COMMISSION
Combined Statement of Cash Flows
For the Year Ended December 31, 2006

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 266,838
Payments to Suppliers	(286,770)
Payments to Employees	(109,472)
HUD Grants	280,643
Other Receipts (Payments)	<u>17,801</u>
Net Cash Provided (Used) by Operating Activities	\$ <u>169,040</u>

CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES

Principle paid on Debt	\$ (50,260)
Purchases of Capital Assets	<u>(855)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ <u>(51,115)</u>

Net Increase (Decrease) in Cash and Cash Equivalents	\$ 117,925
Balance- Beginning of Year	<u>40,182</u>
Balance- End of Year	\$ <u>158,107</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Profit or (Loss)	\$ 109,624
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	102,304
Changes in Assets (Increase) Decrease:	
Receivables (Gross)	24,511
Investments	(86,742)
Prepaid Expenses	7,320
Changes in Liabilities Increase (Decrease):	
Accounts Payable	4,778
Accrued Liabilities	(849)
Compensated Absences	865
Security Deposits	2,732
Deferred Revenue	(503)
Current Portion-Long Term Debt	<u>5,000</u>
Net Cash Provided by Operating Activities	\$ <u>169,040</u>

The Accompanying Notes are an Integral part of the Financial Statements

EAST TAWAS HOUSING COMMISSION
Notes to Financial Statements
December 31, 2006

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity-

East Tawas Housing Commission, East Tawas, Michigan, (Commission) was created by ordinance of the city of East Tawas. The Commission signed and Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 102-001	Low rent program	41 units
	New Construction	44 units

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above criteria, there are no component units.

These criteria were considered in determining the reporting entity.

Basis of Presentation-

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Notes to Financial Statements- continued

Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principles (GAAP); however, for all fiscal years beginning on or after October 1, 1998, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989, provided that they do not conflict with Governmental Accounting Standards Board (GASB) pronouncements .

Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

Assets, Liabilities, and Net Assets-

Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Notes to Financial Statements- continued

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is reported as Invested in Capital Assets, Net of Related Debt.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	3-10 years

Due To and Due From Other Funds

Interfund receivables and payables arise from inter-program transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund activity is recorded at the Catalogue of Federal Domestic Assistance (CFDA) level in the Financial Data Schedule, and are eliminated in the combined financial statements.

Compensated Absences

Sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Notes to Financial Statements- continued

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

General Fund Checking Accounts	\$ 16,414
Savings Accounts	141,493
Petty Cash	<u>200</u>
Financial Statement Total	\$ <u>158,107</u>

Investments:

Certificates of Deposit	\$ 119,723
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Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	Categories			Carrying Amount	Market Value
	1	2	3		
Cash:					
Checking A/C's	\$ 16,414	\$	\$	\$ 16,414	\$ 16,414
Petty Cash	200			200	200
Savings Account	<u>141,493</u>			<u>141,493</u>	<u>141,493</u>
Total Cash	\$ <u>158,107</u>	\$	\$	\$ <u>158,107</u>	\$ <u>158,107</u>
Investments:					
Savings Account	\$ <u>119,723</u>		\$	\$ <u>119,723</u>	\$ <u>119,723</u>
Total Cash	\$ <u>119,723</u>	\$	\$	\$ <u>119,723</u>	\$ <u>119,723</u>

Notes to Financial Statements- continued

Note 3: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Land	\$ 205,892	\$	\$	\$ 205,892
Buildings	2,888,554			2,888,554
Furniture & Equipment-Dwellings	33,681	855		34,536
Furniture & Equipment-Admin	51,667			51,667
Leasehold Improvements	0			0
	<u>\$ 3,179,794</u>	<u>\$ 855</u>	<u>\$</u>	<u>\$ 3,180,649</u>
Less Accumulated Depreciation	<u>1,659,526</u>	<u>102,304</u>	<u></u>	<u>1,761,830</u>
	<u>\$ 1,520,268</u>	<u>\$ (101,449)</u>	<u>\$</u>	<u>\$ 1,418,819</u>

Note 4: Prepaid Expenses.

Prepaid Expenses consist of the following:

Unamortized Loan Origination Fees (Note 5)	\$ 21,200
Prepaid Insurance	<u>2,016</u>
	<u>\$ 23,216</u>

Note 5: Fixed Liabilities:

The financing of the Commission consists of the following:

Bonds	\$ 465,000
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1998 General Obligation Unlimited Tax Refunding Bonds (Section 8 Senior Citizens Housing), interest rate ranging between 3.65% to 4.15%, payable serially until 2009.

The following represents the annual principle & interest obligations:

	<u>Bonds Payable</u>	<u>Interest Payable</u>	<u>Total Obligation</u>
December 31, 2007	\$ 115,000	\$ 9,950	\$ 124,950
December 31, 2008	120,000	7,440	127,440
December 31, 2009	120,000	4,769	124,769
Thereafter	0	0	0

Due to the unique regulatory constraints of the debt it is impracticable to estimate the fair value of debt.

Notes to Financial Statements- continued

In addition to the aforementioned debt, a prepaid bond refinancing was charged to other assets; the charge is being written off using the straight line method at a rate of \$ 7,100 per year. The following represents the activity:

Prepaid bond refinancing paid at closing	\$ 90,000
Amortized prior to beginning of year	<u>(61,700)</u>
Balance at beginning of year	\$ 28,300
Annual Amortization	<u>(7,100)</u>
Balance at end of year	\$ <u>21,200</u>

The annual amortization is included under general expenses on the Financial Data Schedule, (FDS).

Note 6: Pension Plan

The Commission participates in the City of East Tawas Defined Contribution Pension Plan. All eligible employees have 8% of their annual salary contributed to the plan by the Commission. Actuarial and statistical data are reported under a separate report prepared by the City.

Note 7: Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 4,878,896
General Liability	1,000,000
Dishonesty Bond	3,000,000
Worker's Compensation and other riders: minimum coverage's required by the State of Michigan	

Note 8: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 9: Combining Financial Data Schedules.

The totals in the combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principles of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

East Tawas Housing Commission

31-Dec-06

MI102

Combining Balance Sheet		Low Rent 14.850	Sec 8 New Construction Program	Capital Projects Funds 14.872	TOTAL
Line Item #					
	ASSETS:				
	CURRENT ASSETS:				
	Cash:				
111	Cash - unrestricted	98,188	39,723	-	137,911
112	Cash - restricted - modernization and developmen	-			-
113	Cash - other restricted				-
114	Cash - tenant security deposits	9,168	11,028		20,196
100	Total cash	107,356	50,751	-	158,107
	Accounts and notes receivables:				
121	Accounts receivable - PHA projects			0	-
122	Accounts receivable - HUD other projects	-	-	-	-
124	Accounts receivable - other government				-
125	Accounts receivable - miscellaneous				-
126	Accounts receivable- tenants - dwelling rents	148	182		330
126.1	Allowance for doubtful accounts - dwelling rents				-
126.2	Allowance for doubtful accounts - other				-
127	Notes and mortgages receivable- curren				-
128	Fraud recovery				-
128.1	Allowance for doubtful accounts - fraud				-
129	Accrued interest receivable	488	309		797
120	Total receivables, net of allowances for doubtful account	636	491	-	1,127
	Current investments				-
131	Investments - unrestricted	111,024	8,699		119,723
132	Investments - restricted				-
142	Prepaid expenses and other assets	1,008	22,208		23,216
143	Inventories				-
143.1	Allowance for obsolete inventories				-
144	Interprogram - due from	22,685	-	-	22,685
146	Amounts to be provided				-
150	TOTAL CURRENT ASSETS	242,709	82,149	-	324,858
	NONCURRENT ASSETS:				
	Fixed assets:				
161	Land	159,652	46,240	-	205,892
162	Buildings	1,280,761	1,607,793	-	2,888,554
163	Furniture, equipment & machinery - dwellings	33,774	762	-	34,536
164	Furniture, equipment & machinery - admininstrator	48,902	2,765	-	51,667
165	Leasehold improvements	-	-	-	-
166	Accumulated depreciation	(893,134)	(868,696)	-	(1,761,830)
160	Total fixed assets, net of accumulated depreciator	629,955	788,864	-	1,418,819
171	Notes and mortgages receivable - non-curren				-
172	Notes and mortgages receivable-non-current-past due				-
174	Other assets				-
175	Undistributed debits				-
176	Investment in joint ventures				-
180	TOTAL NONCURRENT ASSETS	629,955	788,864	-	1,418,819
190	TOTAL ASSETS	872,664	871,013	-	1,743,677

	LIABILITIES AND EQUITY:				
	LIABILITIES:				
	CURRENT LIABILITIES				
311	Bank overdraft				-
312	Accounts payable ≤ 90 days	4,433	5,063		9,496
313	Accounts payable > 90 days past due				-
321	Accrued wage/payroll taxes payable	1,079	1,080		2,159
322	Accrued compensated absences	2,883	2,883		5,766
324	Accrued contingency liability				-
325	Accrued interest payable		2,426		2,426
331	Accounts payable - HUD PHA programs		-		-
332	Accounts Payable - PHA Projects				
333	Accounts payable - other government	8,844	7,707	-	16,551
341	Tenant security deposits	9,168	11,028		20,196
342	Deferred revenues	240	265		505
343	Current portion of Long-Term debt - capital projects		115,000		115,000
344	Current portion of Long-Term debt - operating borrowings		-		-
345	Other current liabilities	-			-
346	Accrued liabilities - other	-			-
347	Inter-program - due to	-	22,685	-	22,685
310	TOTAL CURRENT LIABILITIES	26,647	168,137	-	194,784
	NONCURRENT LIABILITIES:				
351	Long-term debt, net of current- capital projects		299,740		299,740
352	Long-term debt, net of current- operating borrowings				-
353	Noncurrent liabilities- other	-			-
354	Accr. Comp. Absences- non current	6,492	6,492		12,984
350	TOTAL NONCURRENT LIABILITIES	6,492	306,232	-	312,724
300	TOTAL LIABILITIES	33,139	474,369	-	507,508
	EQUITY:				
501	Investment in general fixed assets				-
	Contributed Capital:				
502	Project notes (HUD)	-			-
503	Long-term debt - HUD guaranteed	-			-
504	Net HUD PHA contributions	-			-
505	Other HUD contributions				-
507	Other contributions	-			-
508	Total Contributed Capital	-	-	-	-
508.1	Invested in Capital Assets, Net of Related Debt	629,955	374,124	-	1,004,079
	Reserved fund balance:				
509	Reserved for operating activities				-
510	Reserved for capital activities				-
511	Total reserved fund balance	-	-	-	-
512	Undesignated fund balance/retained earnings	-	-	-	-
512.1	Unrestricted Net Assets	209,570	22,520		232,090
513	TOTAL EQUITY	839,525	396,644	-	1,236,169
600	TOTAL LIABILITIES AND EQUITY	872,664	871,013	-	1,743,677

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East Tawas Housing Commission

31-Dec-06

MI102

		Low Rent 14.850	Sec 8 New Construction Program	Capital Projects Funds 14.872	TOTAL
Combining Income Statement					
Line Item #				-	
	REVENUE:	-	-		
703	Net tenant rental revenue	140,325	126,301		266,626
704	Tenant revenue - other	340	200		540
705	Total tenant revenue	140,665	126,501	-	267,166
706	HUD PHA grants	48,195	150,840	81,608	280,643
708	Other government grants				-
711	Investment income - unrestricted	5,021	635	-	5,656
712	Mortgage interest income				-
714	Fraud recovery				-
715	Other revenue	5,991	6,154	-	12,145
716	Gain or loss on the sale of fixed assets	-			-
720	Investment income - restricted				-
700	TOTAL REVENUE	199,872	284,130	81,608	565,610
	EXPENSES:				
	Administrative				
911	Administrative salaries	28,678	28,678	-	57,356
912	Auditing fees	1,125	1,125		2,250
913	Outside management fees				-
914	Compensated absences	433	433		866
915	Employee benefit contributions- administrative	4,619	4,639	-	9,258
916	Other operating- administrative	9,103	10,735	-	19,838
	Tenant services				
921	Tenant services - salaries				-
922	Relocation costs	-			-
923	Employee benefit contributions- tenant services				-
924	Tenant services - other	70	205		275
	Utilities				
931	Water	7,434	8,816		16,250
932	Electricity	19,861	19,918		39,779
933	Gas	24,929	24,139		49,068
934	Fuel				-
935	Labor				-
937	Employee benefit contributions- utilities				-
938	Other utilities expense	-			-
	Ordinary maintenance & operation				
941	Ordinary maintenance and operations - labor	26,058	26,058		52,116
942	Ordinary maintenance and operations - materials & other	15,107	12,782	-	27,889
943	Ordinary maintenance and operations - contract costs	5,610	5,580	-	11,190
945	Employee benefit contributions- ordinary maintenance	3,682	3,664		7,346
	Protective services				

[illegible]

EAST TAWAS HOUSING COMMISSION
Status of Prior Audit Findings
December 31, 2006

The prior audit of the East Tawas Housing Commission for the period ended December 31, 2005, did not contained any audit findings or questioned cost.

EAST TAWAS HOUSING COMMISSION
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2006

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Direct Programs:

	<u>Annual Program Expenditures</u>
<u>CFDA 14.850 Public and Indian Housing</u>	
C-3087 Operating Subsidies	\$ <u>48,195</u>
* <u>CFDA 14.182 N/C Section 8 Program</u>	
C-3087 Section 8 Assistance Payments	\$ <u>150,840</u>
<u>CFDA 14.872 Public Housing Capital Fund Program</u>	
C-3087 Capital Fund Program	\$ <u>81,608</u>
	\$ <u>280,643</u>

Significant Account Policies

The accounting policies of the Commission conform to generally accepted accounting principles as applicable to governmental proprietary funds. The financial statements contained in the Commission's annual audit report are prepared on the accrual basis of accounting; revenues are recognized when earned, expenses are recorded when the related services or product are received.

*Connotes Major Program Category

EAST TAWAS HOUSING COMMISSION
Report on Compliance with Requirements
Applicable to Each Major Program
and on Internal Control over Compliance in
Accordance with OMB Circular A-133
December 31, 2006

I have audited the financial statements of the East Tawas Housing Commission of East Tawas, Michigan, as of and for the year ended March 31, 2007, and have issued my report thereon dated July 30, 2007. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weakness.

This report is intended for the information of management, the Board of Commissioners, and federal and state funding agencies, and is not intended to be and should not be used by anyone other than those specified parties.

Certified Public Accountant
Hemlock, Michigan
July 30, 2007

EAST TAWAS HOUSING COMMISSION
Report on Compliance with Requirements
Applicable to Each Major Program
and on Internal Control over Compliance in
Accordance with OMB Circular A-133
March 31, 2007

Compliance

I have audited the compliance of the East Tawas Housing Commission of East Tawas, Michigan, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended March 31, 2007. The Commission's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Commission's management. My responsibility is to express an opinion on the Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the Commission's compliance with those requirements.

In my opinion, the Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended March 31, 2007.

Internal Control Over Compliance

The management of the Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weakness.

This report is intended for the information of management, Board of Commissioners, and federal and state funding agencies and is not intended to be and should not be used by anyone other than those specified parties.

Certified Public Accountant
Hemlock, Michigan
July 30, 2007

EAST TAWAS HOUSING COMMISSION
Schedule of Findings and Questioned Cost
December 31, 2006

1) Summary of Auditor's Results:

Programs:

	<u>Major Program</u>	<u>Non Major Program</u>
Low income Public Housing		X
Section 8 New Construction		X
Capital Projects Funds		X

Opinions:

General Purpose Financial Statements-

Unqualified

Material weakness(es) noted _____Yes _____X_____No

Reportable condition(s) noted _____Yes _____X_____No

Non Compliance material to financial statements noted _____Yes _____X_____No

Report on compliance for Federal programs-

Unqualified

Material weakness(es) noted _____Yes _____X_____No

Reportable condition(s) noted _____Yes _____X_____No

Non Compliance material to financial statements noted _____Yes _____X_____No

Thresholds:

Dollar limit used to determine type A & B programs- \$ 300,000

The Auditee did qualify as a low risk auditee.

<u>Name of Federal Program</u>	<u>Major Program</u>	<u>Questioned Costs</u>	<u>Audit Finding Number</u>
Low Rent Public Housing	No	None	N/A
Section 8 New Construction	Yes	None	N/A
Capital Fund Project	No	None	N/A